

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 ICA-11 AID-05 EB-08
SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03
INR-10 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 H-01
L-03 PA-01 AGRE-00 DOE-15 SOE-02 /118 W
-----104919 242149Z /70

R 241842Z MAY 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8872
DEPARTMENT TREASURY
INFO WHITE HOUSE WASHDC
AMEMBASSY BRUSSELS
AMEMBASSY PARIS
AMEMBASSY TOKYO
AMEMBASSY ROME
AMEMBASSY OTTAWA
AMEMBASSY LONDON

LIMITED OFFICIAL USE SECTION 01 OF 02 BONN 09559

WHITE HOUSE FOR OWEN, USOECD ALSO FOR EMBASSY, USEEC

E.O. 11652: N/A
TAGS: ECON EFIN GW
SUBJECT: LAMBSDORFF TAKES ON THE BIG
SPENDERS AND THE PROTECTIONISTS

REF: (A) BONN 8985, (B) BONN 9280, (C) BONN 9439

1. SUMMARY -- ECONOMICS MINISTER LAMBSDORFF BELABORS
"STOP AND GO" ECONOMIC POLICIES; EXPRESSES PREFERENCE
FOR TAX CUTS OVER EXPENDITURE INCREASES WHEN ECONOMIC
SITUATION WARRANTS FISCAL STIMULATION; WARNS AGAINST
PROTECTIONIST INDUSTRIAL POLICIES WHICH IMPEDE ECONOMIC
ADJUSTMENT. END SUMMARY.

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2. ECONOMICS MINISTER LAMBSDORFF TOOK ISSUE WITH
PROPONENTS OF INCREASED GOVERNMENTAL OUTLAYS TO
STIMULATE THE ECONOMY AND WITH ADVOCATES OF INDUSTRIAL
CARTELIZATION AT A MAY 23 MEETING OF THE FEDERATION
OF GERMAN INDUSTRY (BDI). HANDELSBLATT (GERMAN
BUSINESS DAILY) HEADLINED ITS STORY "LAMBSDORFF DOES

NOT GO ALONG WITH MATTHOEFER". FINANCE MINISTER MATTHOEFER HAS BEEN INDICATING THAT IF THE ECONOMY IS TO BE STIMULATED, IT SHOULD BE THROUGH INCREASED GOVERNMENT EXPENDITURES RATHER THAN TAX CUTS. THE OTHER TARGET OF THE LAMBSDORFF REMARKS WAS CLEARLY EC COMMISSIONER DAVIGNON WHO HAD JUST ADDRESSED THE BDI ON THE ROLE OF INDUSTRIAL PLANNING FOR STRUCTURAL ADJUSTMENT.

3. LAMBSDORFF TOLD HIS BDI AUDIENCE THAT HE COULD NOT AND WOULD NOT ANNOUNCE A TAX REFORM TO THEM, ABOUT WHICH THERE HAD BEEN SO MUCH PUBLIC TALK, SINCE THIS HAD NOT BEEN DECIDED UPON BY THE CABINET. (NOTE: THIS WAS AN OBVIOUS DIG AT MATTHOEFER FOR GETTING OUT FRONT ON 1979 BUDGETARY OUTLAYS.) CRITICIZING "STOP AND GO" TYPE POLICIES MOTIVATED BY INTERNATIONAL PRESSURES AND SUMMITRY CONSIDERATIONS AND ADVOCATING A STEADY COURSE FOR ECONOMIC POLICY, LAMBSDORFF GAVE HIS SUPPORT TO TAX REDUCTIONS AS THE PREFERRED MEANS FOR STIMULATING THE ECONOMY. HE WARNED OF THE DANGER OF SUBSTITUTING GOVERNMENT JUDGMENT FOR THE MARKET IN ALLOCATING INVESTMENT. ALTHOUGH ACKNOWLEDGING THAT SOME PUBLIC SECTOR SUPPORT OF INVESTMENTS IN ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION IS WARRANTED, LAMBSDORFF INDICATED THAT THERE WERE LIMITS TO WHAT THE GOVERNMENT SHOULD DO LIMITED OFFICIAL USE

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IN THESE AREAS AS WELL.

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4. LAMBSDORFF SPECIFICALLY CITED THE BERLIN ECONOMIC INSTITUTE'S (DIW) PROPOSAL FOR A LARGER PUBLIC SECTOR INVESTMENT PROGRAM AS THE SORT OF APPROACH HE WAS OPPOSED TO (REF C). HE, BY CONTRAST, FAVORED A TIGHT REIN ON GOVERNMENT FINANCES AND ESCHEWED COSTLY COMMITMENTS OF GOVERNMENT FUNDS TO PROGRAMS WHICH COULD NOT BE TURNED OFF. HOWEVER, LAMBSDORFF SAW AS DESIRABLE A LARGER PROPORTION OF THE BUDGET BEING APPLIED TO INVESTMENT AND LESS TO CONSUMPTION.

5. TURNING HIS ATTENTION TO THE ISSUE OF FISCAL SUPPORT TO AILING INDUSTRIES AND PROTECTIONIST LIMITED OFFICIAL USE

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POLICIES, LAMBSDORFF NOTED THAT SUBSIDIES TO THE AIRCRAFT AND SHIP BUILDING INDUSTRIES HAD NOT FACILITATED STRUCTURAL CHANGE. AS TO CARTEL-TYPE SCHEMES INSTITUTED FOR THE PURPOSE OF EASING STRUCTURAL ADJUSTMENT, LAMBSDORFF WARNED THAT SUCH ARRANGEMENTS LED TO INDUSTRIAL CONCENTRATION AND THE DESTRUCTION OF COMPETITION RATHER THAN TO THE SOUGHT FOR REDUCTION IN CAPACITY. NOT EVERY PROPOSAL

MADE IN BRUSSELS TO OVERCOME THE PROBLEMS OF A PARTICULAR INDUSTRY WAS TO BE SUPPORTED. HE INDICATED THAT THE EUROPEAN GOVERNMENTS HAD TO BE CAUTIOUS ABOUT HOW THEY APPROACHED THE ISSUE OF INDUSTRIAL ADJUSTMENT. WHERE INTERVENTION WAS NECESSARY, IT WAS IMPORTANT THAT IT BE COMPETITIVELY NEUTRAL. HE PRAISED FRENCH PRIME MINISTER BARRE FOR

HIS EFFORT TO MOVE HIS GOVERNMENT AWAY FROM DIRIGISME
AND SUGGESTED THAT THE SUMMIT SHOULD REPUDIATE
PROTECTIONISM OF ALL VARIETIES.
STOESSEL

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